



Proposed Cannabis Production Facility (CPF) Tax Reduction

Adoption of an ordinance amending Chapter 3, Article 4, Division 1 of the San Diego Municipal Code to reduce the current tax rate for Cannabis Production Facilities (CPFs) in the City of San Diego from 8% to 2%



Councilmember Raul A. Campillo
DISTRICT 7

Legislative Background

- 2014
 - March 25th, City Council adopted an ordinance implementing zoning regulations for Medical Marijuana Consumer Cooperatives
- 2016
 - November 8th, Measure N is approved by San Diego voters
 - November 9th, Prop 64 becomes law
- 2017
 - September 17th, City Council adopts an ordinance regulating the cannabis industry as it relates to CPFs

What is a Cannabis Production Facility (CPF)?

Facilities with the following operations:

- Cultivation
 - Agricultural raising, harvesting and processing of cannabis
- Distribution
 - Wholesale distribution and storage of cannabis and cannabis products
- Manufacturing
 - Production of goods from cannabis and cannabis products is consistent with the California departments of Food and Agriculture, Consumer Affairs and Public Health

City of San Diego Current CPF Tax

- Chapter 3, Article 4, Division 1 of the San Diego Municipal Code
- *“The Cannabis Business Tax rate shall be set at eight percent of Gross Receipts unless the City Council, by ordinance, takes action to set a different tax rate, not to exceed 15 percent of Gross Receipts”*

Emerging Industry Trends

- Most municipalities in California have lower tax rates than the City of San Diego
 - City of Oceanside, City of La Mesa, City of Los Angeles, City of San Jose, City of Long Beach, City and County of San Francisco
- Other California cities have taken recent action to reduce their taxes
 - City of Long Beach, City of San Jose, City of Berkeley, City of Palm Springs, City of Desert Hot Springs

Current CPF Tax Creates Challenges

- Only 19 of the 40 Conditional Use Permits approved for CPFs in the City of San Diego are currently operating
- The local cannabis industry is non-competitive in the CPF market, which:
 - Hurts the local economy and local supply chain
 - Puts local jobs at risk
 - Creates barriers for a future equity program
 - Contributes to GHG emissions
 - Supports the illicit market

“In fact, the state’s Cannabis Advisory Committee last month said the high taxes, overly burdensome regulations and local control issues posed debilitating obstacles to the legal marijuana market”

Forbes Magazine

Fiscal Impacts & Potential Revenue Changes

- CPF tax revenue collected is allocated to the general fund
- 6 CPFs paid approximately \$1.3M to the Office of the City Treasurer
- If the CPF tax had already been reduced to 2%, more businesses would have been able to operate:
 - The City could have collected approximately \$1.62M if 30 out of the 40 permitted CPFs operated and paid taxes to the City

Requested Action:

Adoption of an ordinance amending Chapter 3, Article 4, Division 1 of the San Diego Municipal Code to reduce the current tax rate for Cannabis Production Facilities (CPFs) in the City of San Diego from 8% to 2%